

**REPORT OF THE AUDIT OF THE
McCRACKEN COUNTY
CLERK**

**For The Year Ended
December 31, 2010**



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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE McCRACKEN COUNTY CLERK

**For The Year Ended
December 31, 2010**

The Auditor of Public Accounts has completed the McCracken County Clerk's audit for the year ended December 31, 2010. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees decreased by \$31,190 from the prior year, resulting in excess fees of \$198,734 as of December 31, 2010. Revenues increased by \$648,851 from the prior year and expenditures increased by \$680,041.

Report Comments:

- 2010-01 The County Clerk Should Revise The Compensation Method For Working Elections
- 2010-02 Accounts Receivable For Auto Licensing Should Be Recorded
- 2010-03 The County Clerk Should Deposit Funds Intact On A Daily Basis
- 2010-04 The County Clerk Should Record Overages And Shortages On Receipts Ledger

Deposits:

The County Clerk's deposits as of September 9, 2010, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$265,018

The County Clerk's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Van Newberry, McCracken County Judge/Executive
The Honorable Jeff Jerrell, McCracken County Clerk
Members of the McCracken County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of McCracken County, Kentucky, for the year ended December 31, 2010. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2010, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated on May 11, 2011 our consideration of the McCracken County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Van Newberry, McCracken County Judge/Executive
The Honorable Jeff Jerrell, McCracken County Clerk
Members of the McCracken County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2010-01 The County Clerk Should Revise The Compensation Method For Working Elections
- 2010-02 Accounts Receivable For Auto Licensing Should Be Recorded
- 2010-03 The County Clerk Should Deposit Funds Intact On A Daily Basis
- 2010-04 The County Clerk Should Record Overages And Shortages On Receipts Ledger

This report is intended solely for the information and use of the County Clerk and Fiscal Court of McCracken County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

May 11, 2011

McCRACKEN COUNTY
JEFF JERRELL, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2010

Revenues

State Insurance Reimbursement		\$	21,786
State Fees For Services			26,086
Fiscal Court			112,306
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	2,078,644	
Usage Tax		7,480,573	
Tangible Personal Property Tax		5,959,241	
Other-			
Fish and Game Licenses		4,125	
Marriage Licenses		23,792	
Beer and Liquor Licenses		6,111	
Deed Transfer Tax		165,782	
Delinquent Tax		1,328,921	17,047,189
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		53,891	
Real Estate Mortgages		132,207	
Chattel Mortgages and Financing Statements		148,627	
Powers of Attorney		4,111	
All Other Recordings		115,017	
Charges for Other Services-			
Candidate Filing Fees		1,400	
Copywork		20,105	
Notary Fees		8,968	484,326
Other:			
Drug Council Money		1,350	
Service Charges		1,492	
Miscellaneous		30,016	
Postage		11,247	44,105
Interest Earned			1,082
Total Revenues			17,736,880

The accompanying notes are an integral part of this financial statement.

McCRACKEN COUNTY
 JEFF JERRELL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 1,398,213
Usage Tax	7,255,971
Tangible Personal Property Tax	1,906,240

Licenses, Taxes, and Fees-

Fish and Game Licenses	3,972
Marriage Licenses	2,209
Delinquent Tax	187,144
Legal Process Tax	35,232
Spouse Abuse	6,640
Housing Trust Fund	81,120
Libraries & Archives	13,026
	<u>\$ 10,889,767</u>

Payments to Fiscal Court:

Tangible Personal Property Tax	478,041
Delinquent Tax	156,439
Deed Transfer Tax	157,493
Beer and Liquor Licenses	6,100
	<u>798,073</u>

Payments to Other Districts:

Tangible Personal Property Tax	3,307,237
Delinquent Tax	579,806
	<u>3,887,043</u>

Payments to Sheriff 107,774

Payments to County Attorney 180,585

Payments to Drug Council 1,282

Operating Expenditures:

Personnel Services-

Deputies' Salaries	1,019,677
Part-Time Salaries	22,193

Employee Benefits-

Employer's Share Social Security	78,926
Employer's Paid Health Insurance	278,179

The accompanying notes are an integral part of this financial statement.

McCRACKEN COUNTY
 JEFF JERRELL, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

Expenditures (Continued)

Operating Expenditures: (Continued)

Contracted Services-			
Advertising	\$	3,219	
Materials and Supplies-			
Office Supplies		129,229	
Other Charges-			
Conventions and Travel		4,294	
Dues		5,320	
Postage		15,342	
Election Expense		11,627	
Bank Charges		544	
			\$ 1,568,550
Total Expenditures			\$ 17,433,074
Net Revenues			303,806
Less: Statutory Maximum			97,848
Excess Fees			205,958
Less: Expense Allowance		3,600	
Training Incentive Benefit		3,624	7,224
Excess Fees Due County for 2010			198,734
Payment to Fiscal Court - March 9, 2011			198,651
Balance Due Fiscal Court at Completion of Audit			\$ 83

The accompanying notes are an integral part of this financial statement.

McCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2010

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2010 services
- Reimbursements for 2010 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2010

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

McCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.16 percent for the first six months and 16.93 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The McCracken County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

McCRACKEN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2010
(Continued)

Note 3. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The McCracken County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2010, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of September 9, 2010, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the County Clerk's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$265,018

Note 4. Lease Agreements

A. Copiers

In September 2009, the McCracken County Clerk entered into two lease and maintenance agreements with Xerox. The first agreement was for five copiers with a monthly obligation of \$703. The second agreement is for one copier with a monthly obligation of \$86. Both agreements are for sixty (60) months.

B. Fax Machine

In July 2010, the McCracken County Clerk entered into a lease agreement with Xerox for a fax machine. The term of the lease is twelve (12) months with a monthly obligation of \$25.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Van Newberry, McCracken County Judge/Executive
The Honorable Jeff Jerrell, McCracken County Clerk
Members of the McCracken County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McCracken County Clerk for the year ended December 31, 2010, and have issued our report thereon dated May 11, 2011. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McCracken County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying comments and recommendations as items 2010-02, 2010-03, and 2010-04, that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McCracken County Clerk's financial statement for the year ended December 31, 2010, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations as item 2010-01.

The McCracken County Clerk's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Clerk's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the McCracken County Fiscal Court, others within the entity, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

May 11, 2011

COMMENTS AND RECOMMENDATIONS

McCRACKEN COUNTY
JEFF JERRELL, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2010

STATE LAWS AND REGULATIONS:

2010-01 The County Clerk Should Revise The Compensation Method For Working Elections

While reviewing cancelled checks for disbursements, we noted additional compensation was paid to deputies for the additional time worked on the 2010 primary and general elections outside of the standard payroll system. Further inquiry over such payments revealed that for the additional hours worked the deputies were compensated based on the job he or she performed during the election, instead of the actual additional hours worked. Our test of payroll later revealed the following problems with such a compensation method:

- The compensation received by county clerk deputies was not reported on their annual earnings records or W-2 forms
- Time records for these dates did not accurately reflect the actual hours worked by deputies
- Deputies may or may not have been properly compensated for additional hours worked

By not including this compensation on deputies' annual earnings records or W-2 forms, each related deputy's earnings for the year was understated by the corresponding amount. Also, by compensating deputies based on the job he or she performed instead of their actual hours worked, the County Clerk is in jeopardy of not adequately compensating employees for any hours worked in excess of 40 hours, as required by KRS 337.285.

Therefore, we recommend the County Clerk compensate deputies for working elections based on actual hours worked. Also, we recommend all compensation received by deputies for working elections be accounted through the standard payroll system and included on their annual earnings records and W-2s. If the additional hours worked during elections causes employees to exceed 40 hours worked for the week, then employees should be compensated at a rate of one and one-half times the wage rate that he or she is employed. If an agreement is in place between the employee and County Clerk to receive compensatory time in lieu of overtime pay, the correct amount of compensatory time should be added to the employee's leave balance.

County Clerk's Response: Election pay was documented and recorded in the disbursements ledger. The method for paying election pay has been the same for many, many years. However, we will follow the auditor's recommendations for election pay.

McCRACKEN COUNTY
JEFF JERRELL, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES:

2010-02 Accounts Receivable For Auto Licensing Should Be Recorded

Audit testing over daily receipts revealed that accounting for charges associated with automobile licensing was insufficient. Currently, the Clerk allows car dealerships to charge business and pay the next day when they pick up the processed work. On the day the clerk would process the work, a manual handwritten charge slip would be processed in the system as a check. When the clerk balanced the daily activity and funds the next day, any payments from the dealers would be substituted for the charge slips. If charges were not paid by the time the daily activity and funds were balanced, the clerk would insert funds from the current day to make the deposit agree to the daily work. Then, when payment is made on the outstanding charges, these checks are inserted into that day's deposit to cover the cash that was used for the unpaid accounts receivables. The manual handwritten charge slips were the only record of the amounts charged and were disposed of once paid. This current accounts receivable practice is not a good practice because it uses one day's cash collections to cover another day's deposit, and does not allow for the accounting of charges and collections on account. When asked in prior years about allowing customers to charge, we were informed of County Clerk's practice of allowing charges to banks and attorneys for recordings but were not made aware of the above practice.

The Point of Sale (POS) system, developed by the State and used by the County Clerk, allows and accounts for charges and payments on the account; however, the clerk is not using this function of the POS system. The POS system accounts and records accounts receivable by having the clerk set up customer accounts, process charges and payments on account, and reconcile total daily business to the daily deposit. Using the accounts receivable function in the POS system would eliminate the need for the clerk to manipulate checks and cash to make the daily deposit agree with the daily POS report. Furthermore, it would properly account and record accounts receivable and allow the County Clerk to determine any outstanding charge balances.

In order to strengthen the County Clerk's system for charges associated with automobile licensing, we recommend the County Clerk start using the accounts receivable function in the Point of Sale system, maintain all documentation, and ensure accounts receivable for auto licensing is properly reported and accounted for. Also, we recommend the County Clerk contact the Kentucky Transportation Cabinet for training on the Point of Sale accounts receivable function to ensure proper use.

County Clerk's Response: Accounts receivable for auto licensing has always been collected. Accounts receivable for auto licensing has been allowed for over 28 years. From this point on we will follow the auditor's recommendation.

McCRACKEN COUNTY
JEFF JERRELL, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2010-03 The County Clerk Should Deposit Funds Intact On A Daily Basis

Audit testing over daily receipts revealed that deposits were not being made timely and intact. Rather than depositing each day's receipts the following day, we noted they were being held an additional day. Also, any unpaid accounts receivable for the day were being covered by the following day's cash collections. Then, when payment was made on such charges, these checks were inserted into that day's deposit to cover the cash that was used for the unpaid accounts receivable. In addition the County Clerk allowed personal checks to be cashed from office funds. These current practices leave receipts vulnerable to misappropriation or theft and can result in undeposited receipts.

KRS 68.210 requires county fee officials to make deposits, intact into a federally insured banking institution on a daily basis. While the County Clerk's office is making deposits systematically, we recommend he eliminate the one-day delay before depositing these funds. By doing this, the County Clerk will ensure compliance with KRS 68.210 and better protect receipts. Also, we recommend the County Clerk deposit all daily funds intact, by not covering unpaid accounts receivable with the following day's funds. The County Clerk should also prohibit the practice of cashing personal checks, in order to ensure the make-up of the deposit mirrors the actual funds received for the daily business.

County Clerk's Response: Deposits were being made daily. The clerk's office has been on the same deposit schedule for over 28 years. This deposit schedule allowed our office to be able to make change as needed. However, since the auditor's office has allowed us to increase the money in our change box, we will be able to eliminate the one day delay in depositing funds.

McCRACKEN COUNTY
JEFF JERRELL, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2010
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES: (Continued)

2010-04 The County Clerk Should Record Overages And Shortages On Receipts Ledger

Audit testing over daily receipts revealed that the County Clerk is not accounting for overages and shortages on the receipts ledger. Instead, the documented variance between the daily Point of Sales (POS) report and the actual funds collected is accounted for by adjusting the amount posted to the receipts ledger for postage receipts. By using this method to account for these variances, the amount of postage reported on the County Clerk's receipts ledger and 4th Quarter Financial Report is misstated. While these amounts are not material to the financial statement, they should still be accurately reflected on the receipts ledger and 4th Quarter Financial Report. Because of this, we recommend the County Clerk start accounting for overages and shortages, by recording the documented variance between the daily Point of Sales (POS) report and the actual funds collected to the overage and shortage category on the POS system. Also the overage or shortage should be posted to an overage and shortage category on receipts ledger, instead of adjusting postage receipts. Not only will this practice more accurately reflect office receipts, but it will also provide a better means of determining if shortages are occurring frequently and if they are becoming an area of concern.

County Clerk's Response: Overages and shortages were being documented on our daily check out sheets. Once again, the clerk's office has followed methods that have been in practice for several years. However, we have followed the auditor's recommendations on accounting for overages and shortages.

